Retiring Times

Volume 1 Number 2 State Employees Summer 2001

The Newsletter of the Vermont State Employees' Retirement System

Message from Vermont State Treasurer James Douglas

We all hear about how little Americans save. Will you have enough for retirement? I know, you have your pension plan and social security, but will that be enough when the time comes? A three-legged stool is often used to describe retirement needs for most individuals. The three legs consist of: 1) a pension plan, 2) social security and 3) personal savings. No stool will stand alone on only two of these three legs.

I hope you have already invested in a tax-advantaged savings plan. There are traditional IRA's and Roth IRA's, and the State of Vermont offers a Deferred Compensation Plan that is available to all state employees. The plan administrator is Citistreet, and they have an office at 138 Main Street in Montpelier. Their phone number is (802) 229-2500 or toll-free at (800) 333-8701. If you have not yet taken advantage of this plan, I encourage you to do so. It is a wonderful way to save for retirement – with before-tax dollars.

Do you think that you cannot afford to save? I bet you can. It can often be difficult to save something out of each paycheck, but even a little bit of money put aside in a deferred comp savings plan can grow to a tidy nest egg when compounded over time. If you save just the minimum $20 every two weeks over a 30-year time horizon, you could have nearly $60,000 when you retire at the end of those 30 years, if your investments compound at only 8%. Besides, since your contributions are pre-tax, you will see your bi-weekly paycheck reduced by only $16.25 because you save $3.75 in taxes. If you are in a higher tax bracket, your tax savings are even greater.

If you don't have 30 years until retirement, your money will still compound and grow. Besides, now that you are a little older, perhaps you can afford to save more than the minimum

(continued on page 2)

Message from Director of Retirement Cynthia L. Webster

It was a relatively quiet year up at the State House for active state employees. Nevertheless, we were able to pass the following legislative changes for active members:

- full retirement credit for active members who go on an approved leave of absence to serve in the military if they return to work within a specified period of time.

- up to three years of retirement credit for active members who served in the military during the Korean or Vietnam Conflict periods even if they are eligible to receive a military pension for *non-regular* military service. Non-regular military service is defined as guard or reserve duty. This provision brings Vermont into compliance with the federal law.

PLEASE NOTE: If you have a minimum of 15 years of creditable service in the retirement system, and served a minimum of one year of full-time service during the Korean or Vietnam

(continued on page 2)

Treasurer's Message (continued from page 1)

out of each paycheck. Even after 10 years, the $20 minimum will have grown to over $7500, if compounded at 8%, which is three times what you contributed. At present, the maximum you can contribute each year is 25% of your salary or $8500, whichever is less.

The Deferred Comp Plan has 18 different mutual fund investment options. Most of these are domestic stock funds, but there are international stock funds, bond funds and blended funds as well. If you feel insecure about investing, the folks at Citistreet will be glad to assist you. In addition, they offer three pre-assembled portfolios that have an asset mix all set for you. All you need to do is determine how many years you have until retirement and how much risk you are willing to assume. More risk usually means higher rates of return, but you have to be able to sleep at night too.

Another tax-advantaged savings plan available in Vermont is the Vermont Higher Education Investment Plan offered through the Vermont Student Assistance Corporation (VSAC). This plan helps parents save the money necessary to provide a college education for their children. The contributions are after-tax, but when withdrawals are made for qualified higher education expenses, the income is exempt from Vermont State Income Tax and is scheduled to be exempt from Federal Income Tax next January 1.

I urge all of you to consider the Deferred Compensation Plan. I have been contributing to it for years, and it has been terrific to watch my assets grow. Now is the time to start saving; a little bit can go a very long way when it has a long time to grow before you retire.

Director of Retirement Systems:
Cynthia Webster
133 State Street
Montpelier
Vermont 05633-6901
828-2305 or 1-80-642-3191 (In-State)

Retiring Times is published quarterly by the Vermont State Employees' Retirement System. Editor: Joseph Bahr

Director's Message (continued from page 1)

Conflict periods, but were previously unable to receive a grant of credit because you were receiving or eligible to receive a military pension for guard or reserve service, you should contact the Retirement Division to apply for the grant at this time.

In addition, new legislation that affects retired state employees was also enacted:

- a retroactive adjustment to a retiree's pension if he served in the military during the conflicts in Korea or Vietnam. This pension adjustment only applies if the individual was not eligible for a Vermont State Employees' Retirement grant for this military service prior to his retirement because he was eligible to receive a military pension for *non*-regular military service. Non-regular military service is defined as guard or reserve duty.

- a one-time stipend of $500 for each year served, up to a maximum of 3 years, to state employees who retired prior to July 1, 1999, and who served in WWII, the Korean Conflict or the Vietnam Conflict, in recognition of their service to our country.

Cynthia L. Webster

Improvements in Deferred Compensation

Your Deferred Compensation plan just got better. Congress approved the following changes as part of the Economic Growth and Tax Relief Act of 2001. The effective date of these changes is January 1, 2002, although many will gradually be phased in over five years.

In the next five years, the limit on annual contributions to a Deferred Compensation plan will gradually increase from $8,500 to $15,000. However, in the three years before retirement, you will be able to contribute up to $30,000 a year. This feature may be particularly useful to two-income families – one spouse's income could go toward retirement via Deferred Compensation while the other spouse's income could pay for current living expenses.

There had been a cap on contributions that was equal to one-third of your income. That cap has been eliminated – you may now contribute up to 100% of your income (with a maximum of $15,000 a year by 2006) to a deferred compensation plan. Again, this provision may be most useful to two-income families that could divert one income to Deferred Compensation and meet current living expenses with the other income.

A "catch-up" provision already allows people who are older than 50 to exceed their normal contribution limit. The idea is to give people who haven't saved enough a chance to put aside extra money in the years leading up to retirement. The limits on the "catch-up" provision will gradually rise from $1,000 per year to $5,000 per year. However, you cannot use both the "catch-up" provision and the $30,000 contribution provision that is available during the last three years before retirement – for any single year, you can use one of these two ways to increase your maximum contribution but not both.

The last change eliminates the requirement to select a payout option upon retirement. Currently, this payout option is irrevocable – once made, it cannot be changed. Under the new law, the irrevocable decision is eliminated and more payment choices will be available.

Citistreet, the contractor for the Deferred Compensation plan, will fully explain all of these changes in the newsletter that comes with your quarterly account statement in mid-October.

Planning Your Retirement

Here are a few tips to consider if you will be considering retirement in the next ten years.

First, attend a Retirement Issues workshop. Offered four times a year and listed in the Cyprian Learning center catalog, the workshop is for anyone who is thinking about retiring in the next five to ten years. The workshop helps you plan for the transition from employment to retirement. The workshop presents many ideas and suggestions to make the transition as smooth as possible and will definitely help you to avoid the common mistakes that could hamper your retirement dreams.

Second, when you are within a year of retiring, call the Retirement Office for an estimate of your benefits. The Office will need a tentative retirement date and your beneficiary's name and date of birth to give you an estimate of your benefits.

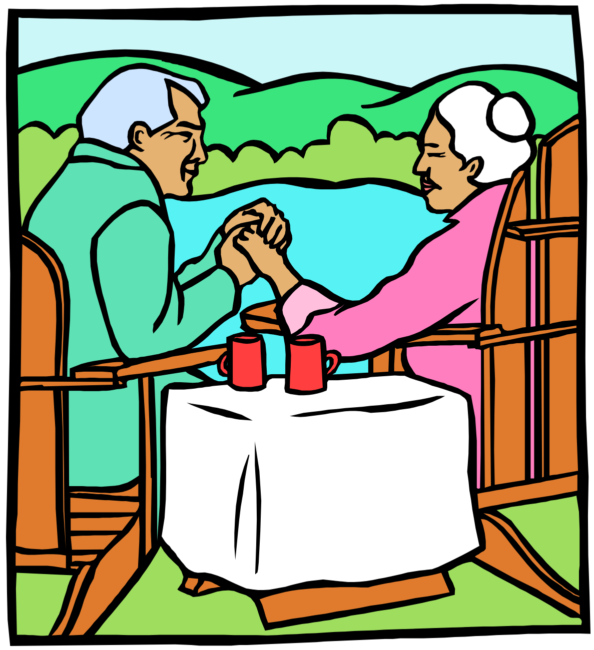
Third, make an appointment to see a retirement counselor at the Retirement Office. This meeting should occur at least two to three months before your actual retirement date. Bring your spouse or other significant person to the meeting with the

(continued on page 4)

Planning (continued from page 3)

retirement counselor – your retirement will affect both of you. The retirement counselor will discuss your options, health insurance, life insurance, employment after retirement, and other relevant issues with you.

If you follow these three steps, your retirement can indeed become the Golden Years.



Vermont State Employees' Retirement System
133 State Street
Montpelier, VT 05633-6901

PRSRT STD
U.S. Postage
PAID
Burlington, VT
Permit No. 601